

Ardian Fullani: Albania – sustaining macroeconomic stability in a challenging external environment

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the Seminar “Albania – sustaining macroeconomic stability in a challenging external environment”, Tirana, 4 March 2010.

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Dear Mr Bell, Dear Minister,
Dear participants,

It is a great pleasure for me to welcome you to this seminar and to attend its proceeding.

This seminar and its topics are very coherent and dwell upon very important issues for the economic development of Albania and of all emerging economies. They explicate the topics that the economic authorities are faced with, as a consequence of macro and microeconomic side effects of the global financial crisis of the financial markets and the real economy.

Generally, the policies undertaken by authorities in the light of the country-specific conditions proved to be successful. Fiscal expansion and easing of monetary conditions according to respective needs turned out to be successful in avoiding the turning of the crisis into depression, like that of 1930. In Albania’s case, these stimuli helped preventing the economic events that characterize the financial crisis and mitigated the adverse effects that the global economy gave on the Albanian economy.

Though the crisis effects continue to exert their influence on the world-wide economy, it’s time to reassess the situation and the economic policies. Generally, the current period in the world economy coincides with the correction stage, which is reflected in a lower economic growth and new balances in production, trade, services, financial intermediation, exchange rate and household budgets. In itself, these new balances do not represent a new stage or evolution of the crisis. They represent a sustainable equilibrium under new circumstances. Distortions in financial markets and lack of rationality in consumer behaviour are assessed as the main triggers of the crisis, because their level during the bubble blowing were not in line with the long-term sustainable equilibrium of the economy.

Consequently, the idea to continue the economic stimuli, to speed up production, consumption and financial intermediation at the same rates and with the same instruments would be similar to the financial markets stimuli during the pre-crisis period. In other words, pursuing the same policies under current conditions and the new equilibrium would cause major economic and financial imbalances over the medium run, which would damage the economy rather than helping it.

Precisely from this viewpoint, it is important that we now start to think about and cooperate for finding and implementing policies that would guarantee macroeconomic and financial stability at home.

From the above viewpoint, the nature of stimulus policies at present and in the future should aim at minimizing the costs of side effects that the expansionary policies have caused in the course of years. A very important place in this direction is occupied by reduction of debt created during the fiscal expansion, and reduction of its cost. In this framework, all the fiscal authorities should work not only for avoiding the creation of new debt, but also for settling the debts in arrears with maximum efficiency. Debt exit strategies, including also the replacing of the expensive debt in arrears with a new cheaper debt, are very important and welcomed.

In current conditions, when there is a high probability for further debt growth, the policies to sustain the economy by expenditures is restricted from the incapability of the economy to generate economic growth.

Shifting the focus of discussion to the reality of our economy, in order to maintain the debt level and the macro-financial stability, it is necessary to restrict expenditures in accordance with revenues. The latter depends directly on Albanian economy revenues. Therefore, it is very important to encourage the economic development and to direct the financial resources to those directions where the Albanian economy provides its competitive advantage. This would enable the substitution of imported consumer goods with domestic products whenever possible and efficient. The purpose is to encourage production not only for domestic consumption but also for exports in traditional markets and products and in new ones. This objective is a necessity, not only from the short-term and mid-term perspective, but also from long-term one.

The strategies for debt management and reduction (debt restructuring) are not only part of the macroeconomic policies. They should be extended to every cell of the economy, whenever the microeconomic balance sheets have been burdened by debt. The restructuring and the resumption of lending activity can not take place without leaving aside the sick and bad part of the balance sheets. Currently we are confronted with exchange rate correction. This automatic adjustment of consumer and producer behaviour in terms of consumption, savings and investments, has been an indispensable process in line with the new equilibrium. However, it is insufficient; therefore, it should be accompanied by correction of fixed asset prices in accordance with the new wealth balances. I would like to emphasize that the equilibriums of a balance-sheet, either fiscal, private or household one, are guaranteed by simultaneous and equal changes in its both sides.

Banks and businesses should work together to identify and separate the sound parts from the problematic ones. If the current restructuring strategies lack the potential for improving the sick part, then perhaps it is the due time to pass to a new strategy that treats both parts of the business as separate from each other. This would enable an optimal solution in each specific case versus a unified refinancing strategy that was implemented so far. Clearing the lending activity would bring about shifting of the new credit from inefficient refinancing to new development possibilities and economic growth, where the savings-investment balance is in equilibrium. This issue relates not only to the performance of the banking system and the financial stability of the country, but also to the ability of the economy to grow in the future.

As I have also mentioned in other events, both the macro and micro factors that encouraged rapid economic growth in the recent years, are no longer present in the global and national economy. The new equilibriums we are living with show that the rapid consumption-driven growth models and credit-based growth models will no longer be present in our economy. This is true owing to supply and demand factors, since the rapid consumption- and credit-driven growth has aggravated the savings – investments balance sheets of agents in the economy.

Consequently, there should be found a new long-term economic growth model, capable of absorbing the financial resources, particularly the foreign ones, and generating an economic growth. The first step in this regard is the identification of the competitive advantages that the Albanian economy generates and the acceleration of structural reforms in the Albanian economy in the light of these priorities.

It is a pleasure that our timely discussion topics and activities are in line with the agenda of this activity. Thus the IMF provides a valuable contribution to our economy through discussion of these topics. Furthermore, through this activity, the IMF enhances the transparency throughout the Albanian economy regarding the economic development vulnerabilities from the IMF viewpoint, thus participating in the country's economic debate.

I would like to emphasize the latter, because I find it particularly important with regard to the difference between scientific contribution and that of political economy. The IMF comes to Albania as a participant in this debate with four scientific papers, whose results are based on available and reliable statistics, identified economic models and conclusions based on well-grounded assumptions and analyses. Each of these elements is clearly explained in the

working papers that will be discussed today. These elements altogether make the work replicable (controllable), open for discussion, and assign credibility to the results and inferences. These materials represent good grounds for discussing issues of great importance to the Albanian economy. In contrast, today the bulk of economic discussions and analyses in Albania are based on a different criterion: that of listening and discussing.

Analysts and economists focus mainly on the transmission of conclusions of their economic thought. They neglect the important discussion of data sources, the identification of theory references (by author or by year), or the assumptions made while applying the models on whose bases the results are obtained.

This working model of “speak and listen” has dominated the economic analysis outside institutions. This model lacks two essential elements, the “read and write” ones. Economic comeback focuses only on television media, while all the economic policies of the Bank of Albania are based on the analysis and research papers with theoretical and empirical character and on economic indicators database.

All these elements of decision-making are transparent to the public because they are published in electronic formats on the Bank of Albania’s website, and are simultaneously available in printed forms as separate working papers or summarized in volume forms. All this information is free of charge and is made available to the public as a public good. Consequently, analysis and comments on the nature, direction and speed of economic policies should start from, and address to these studies in order to discuss them.

It is true that any analysis and critique starts from an economic hypothesis, but before the discussion becomes public, it is necessary that the validity of the null hypothesis is tested. This process should be documented in a working paper or article, because if the hypothesis or the model or data used are not appropriate in the analysis in question, then the conclusions are partial in the best case or make no sense in the worst case. Honestly, I hope that today’s activity would help in establishing a model or a culture of debate or analysis from the perspective of a third party. Everyone can benefit from the discussion, which is a necessary good for any institution that designs and implements policies of economic, environmental, social or any other nature. And this happens only when the content and the form of discussion is not determined by individual definition of the phenomenon, but by its detailed theoretical and empirical explication as required by the economic science standards.